

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 EPG-02 DODE-00 FEAE-00 FPC-01
H-01 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01
PM-04 USIA-06 OES-07 SP-02 SS-15 STR-04 TRSE-00
ACDA-07 PA-01 PRS-01 /097 W
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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 1369

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

LIMITED OFFICIAL USE BRASILIA 3444

E.O. 11652: N/A

TAGS: ENRG, EINV, BR

SUBJ: RISK CONTRACTS - EXXON SIGNING CONCLUDES FIRST ROUND

FOLLOWING MESSAGE PREPARED BY AMCONSUL RIO DE JANEIRO

SUMMARY: EXXON HAS SIGNED A RISK CONTRACT WITH PETROBRAS FOR OIL EXPLORATION IN THE SANTOS BASIN. THIS SIGNING MARKS THE END OF NEGOTIATIONS FOR THE FIRST ROUND OF RISK CONTRACTS. PETROBRAS IS EXPECTED TO ANNOUNCE SHORTLY THE AREAS AVAILABLE FOR A SECOND ROUND. END SUMMARY.

1. THE SIGNING OF A RISK CONTRACT BY EXXON AON APRIL 26 CONCLUDED THE FIRST ROUND OF NEGOTIATIONS BETWEEN PETROBRAS AND FOREIGN OIL COMPANIES. ACCORDING TO AN EXXON SOURCE, THE CONTRACT CALLS FOR AN INITIAL EXPENDITURE OF DOLS 16 MILLION, INSTALLATION OF A DRILLING RIG WITHIN FIFTEEN MONTHS, AND THE DRILLING OF AT LEAST TWO WELLS AT THE OFF-SHORE SANTOS SITE. THE MAIN NEGOTIATING ISSUE BETWEEN PETROBRAS AND EXXON WAS THE STATUS OF NATURAL GAS WHICH MIGHT BE DISCOVERED IN THE LIMITED OFFICIAL USE

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CONTRACT AREA. THIS ISSUE HAD NOT BEEN SETTLED IN EARLIER RISK CONTRACTS (PETROBRAS HAD PREVIOUSLY SIGNED CONTRACTS WITH SHELL, BRITISH PETROLEUM AND ELF/AGIP, A FRENCH-ITALIAN CONSORTIUM). EXXON CONSIDERED POTENTIAL NATURAL GAS FINDS AN IMPORTANT COMMERCIAL FACTOR AND INSISTED THAT THE RISK CONTRACT PROVIDE A FREMEWORK UNDER WHICH SUCH DISCOVERIES COULD BE DEVELOPED. THIS INSISTENCE PROLONGED THE NEGOTIATIONS

SOMEWHAT. OUR SOURCE COMMENTED THAT THE EXXON CONTRACT WOULD BE USED AS A MODEL IF NATURAL GAS WERE FOUND BY OTHER RISK CONTRACT PARTICIPANTS.

2. CONTRARY TO SOME PRESS REPORTS, THE RATE OF EXPLOITATION OF ANY OIL DISCOVERED WAS NOT A SERIOUS ISSUE. EXXON NEGOTIATORS DROPPED THEIR INITIAL CHALLENGE OF PETROBRAS' CONTROL OVER THE PRODUCTION RATE BUT INSTEAD SOUGHT COMPENSATION IN OTHER PROVISIONS. THE EXXON SOURCE AFFIRMED THAT THE SIGNED CONTRACT STANDS ON ITS OWN COMMERCIAL MERITS AND CONSIDERATION OF EXXON'S OTHER BRAZILIAN INTERESTS DID NOT INFLUENCE THE NEGOTIATIONS. IN THIS REGARD, THE KEY FACTOR DISCUSSED WAS THE RATE OF PROFIT ON EVENTUAL PRODUCING WELLS -- A FACTOR (OBVIOUSLY CLOSELY-HELD) WHICH EACH RISK CONTRACT SIGNER HAD TO ADJUST TO TAKE ACCOUNT OF THE PECULIAR CONDITIONS AND PROBABILITIES CALCULATED FOR EACH SITE.

3. COMMENT: THE EXXON SIGNING CONCLUDES A PROCESS THAT BEGAN OVER A YEAR AGO WHEN PETROBRAS ANNOUNCED WHICH AREAS WOULD BE AVAILABLE FOR CONTRACT SUBMISSIONS. OF THE OVER FORTY COMPANIES WHO PRE-QUALIFIED, ONLY FIVE ULTIMATELY SUBMITTED RISK CONTRACTS AND ONE OF THE FIVE, TEXACO, DROPPED OUT WHEN THE AREA IT WAS INTERESTED IN WAS CONTRACTED TO ELF-AGIP.

4. THE CONTRACT NEGOTIATIONS TOOK LONGER THEN GOB OFFICIALS HAD PREDICTED AND PART OF THE DELAY WAS PROBABLY DUE TO BUREAUCRATIC RESISTANCE TO THE RISK CONTRACT POLICY WITHIN PETROBRAS. THE SIGNING OF THE EXXON CONTRACT, HOWEVER, IS AN ENCOURAGING SIGN SINCE, OF THE FOUR COMPANIES, EXXON IS LIMITED OFFICIAL USE

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BELIEVED TO HAVE CONSIDERED THE RISK CONTRACT FROM A PURELY COMMERCIAL POINT OF VIEW.

5. PRESS REPORTS INDICATE THAT PETROBRAS WILL ANNOUNCE SHORTLY A SECOND GROUP OF AREAS AVAILABLE FOR RISK CONTRACT PROPOSALS. THE ANNOUNCEMENT IS EXPECTED TO INCLUDE AS MANY AS 24 AREAS. THE EXPERIENCE GAINED DURING THE FIRST ROUND SHOULD SPEED THESE SECOND ROUND NEGOTIATIONS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BRASIL03444
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
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Executive Order: N/A
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Status: NATIVE
Subject: RISK CONTRACTS - EXXON SIGNING CONCLUDES FIRST ROUND FOLLOWING MESSAGE PREPARED BY AMCONSUL RIO DE JANEIRO SUMMARY: EXXON HAS SIGNED A RISK CONTRACT WITH PE
TAGS: ENRG, EINV, BR, US, EXXON
To: STATE
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/8e836088-c288-dd11-92da-001cc4696bcc
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